Statement of John T. Sinnott, Chairman and CEO, Marsh, Inc.
Before the House Financial Services Committee

"Protecting Policyholders from Terrorism: Private Sector Solutions"
October 25, 2001

Mr. Chairman and members of the Subcommittee, I am John T. Sinnott, Chairman and CEO of Marsh, Inc, headquartered in New York City. Marsh is the world's largest risk management and insurance brokerage firm. We have 35,000 employees and serve clients in over 100 countries around the world. We also serve virtually all of the major insurance firms with reinsurance broking and related services through our Guy Carpenter unit. My testimony is on behalf of my firm as well as the member firms of the Council of Insurance Agents and Brokers.

I'd like to thank you, Mr. Chairman, for giving me this opportunity to testify today on the topic of private sector solutions to the burgeoning terror insurance availability crisis in the wake of the September 11 attacks. While it has been said many times before, I think it bears repeating that the events of that day have changed the United States, and that life and business as we once knew it will never be the same. The events of that day were singularly devastating on one industry - the financial services industry - not only in business terms, but also in human terms.

The World Trade Center housed several companies from the banking, securities and insurance industries that must now deal not only with the new business challenges facing them as a result of the attacks but also with the loss of colleagues and employees. Within the insurance industry, the brokerage community was hit particularly hard. Marsh maintained offices in both of the World Trade Center towers and the space that we occupied in the north tower comprised the floors directly struck by the first aircraft. No one in those offices at the time escaped. In fact, of the 1900 members of the Marsh & McLennan Companies working in both towers (or who were visiting that day) 294 were lost. Another colleague was a passenger aboard one of the aircraft.

The world's second largest brokerage firm, Aon, also had a large presence in Tower 2. They lost 200 of their colleagues.

While our first response was to focus on our people and the families of those lost, we also realized that we had to begin the job of our affected clients in resuming their usual business operations.

The events of September 11 have changed the landscape of commercial insurance in a way that I have not seen in my 36 years in the business. To be sure, there have been trying times in the past - the liability crisis in the mid-1980s, the property catastrophe coverage problems in the early 1990s following Hurricane Andrew, to name a couple. Marsh rose to the occasion during both those crises to help our clients secure the coverage that they needed to adequately protect their businesses. This is a function that is quite common in the brokerage community - not merely selling insurance products, but identifying client needs and developing new and innovative products or programs to address coverage shortfalls and to make our clients more successful.

In response to the mid-1980s liability crisis, Marsh played a leading role in the creation of the insurance and reinsurance companies ACE Limited in 1985 and XL Capital in 1986. These companies were formed to provide excess liability and directors' and officers' liability coverages at a time when the market could not provide the necessary capacity. These companies were very successful in providing much-needed market capacity and eventually were spun off from Marsh. They exist as major insurers today. Similarly, Marsh played a role in the creation of Mid Ocean Limited during the property catastrophe reinsurance crisis following Hurricane Andrew in 1992. This company has also done very well in meeting the needs voiced by our clients.

It was in this same spirit of responding to customer needs that MMC Capital, our sister company, recently announced the formation of AXIS Specialty Limited, a new insurance and reinsurance company formed to provide capacity needed in the wake of the September 11 attacks. AXIS has an initial capitalization in excess of $1 billion, and will begin underwriting later on this quarter.

Thus I think that it is fitting that the Subcommittee is exploring private-sector solutions to this unique situation. Our firm is proud to be able to continue our tradition of responding to supply and demand imbalances in the insurance and reinsurance markets. But I must tell you in all candor that what your committee heard has been hearing over the past three weeks is true - there is an immediate crisis that demands your attention. In the current unique, and hopefully short-term, environment of uncertainty, the private sector alone will not be able to provide the insurance capacity America's businesses need to conduct their operations. Government involvement is needed until the environment becomes secure and returns to a state of more normalcy.

The problem with what happened on September 11 is that it presented a risk that no one had could conceive would happen. When the buildings were built, loss scenarios did contemplate the impact of one Boeing 707 (the largest commercial aircraft at the time) however the idea of two, fully fueled 767's hitting both towers was unimaginable. Thus, we arrive at the problem presented by terrorism: the magnitude and severity of potential future events.

There has been considerable discussion about the scale of the World Trade Center and associated losses of September 11. While it will be some time before the total costs of the tragedies are computed, we all know that they represent the largest-ever losses in the insurance industry, by far. The previous largest insured loss was Hurricane Andrew at nearly $20 billion – or less than half of the losses of September 11. Some further context – The five most recent catastrophic losses for the insurance industry – including Hurricane's Andrew and Hugo, the Northridge and Kobe earthquakes and the Lothar and Martin windstorms in Europe – totaled $53 billion in losses. Chances are that the losses stemming from the attacks at the World Trade Center will exceed that number – perhaps significantly.

The true cost of these events will not be know for years, because some types of insurance, such as business interruption and workers compensation, do not constitute one-time payments but are rather ongoing for longer periods of time. While the industry has stated it can cover the severity of losses from this event, it is very unclear that the industry will be able to meet any frequency of future losses that may occur. We are told by federal authorities to expect retaliatory strikes against America and that it is virtually impossible to completely shield ourselves from the assaults of those who disregard their own lives.

We have already seen massive and virtually unanimous signs of the unwillingness to take on such risks that are unquantifiable. As our commercial clients' policies have come up for renewals, we have seen a majority of insurers add terrorism exclusions to their policies. Of the top 25 property insurers with whom we trade, 17 have stated that terrorism exclusions will apply effective immediately and most of the others can also be expected to apply an exclusion.

While most insurers will be unwilling to underwrite terrorism risks going forward, there may be a few companies who will be willing to take on those risks. However, even if they are willing to provide the coverage, it is not clear that they will do so at prices which are affordable by most businesses. And clearly, such efforts will involve adverse selection, in that many businesses that are considered most vulnerable probably will not be able to secure coverage at any price from any insurer, absent federal intervention.

Similarly, there is now a new definition of what a maximum insured loss may be. There are not many people who would have ever believed that the twin towers of the World Trade Center could or would be completely destroyed, turned into a pile of dust and rubble, with nothing of value left, and with thousands of deaths and injuries. We know now that it is possible, and that the concept of a maximum insured loss post September 11 does not in any way resemble the concept we had before that date. Threats can come from anywhere in the world, not just from one's business partners or from Mother Nature. The scope of risks we must plan for has changed as well.

This change in the perception of risk will have great repercussions in the pricing of policies going forward. Before September 11, the insurance industry was already experiencing what is known as a "hard market," meaning that premium rates were rising. That trend has now accelerated significantly. We are now seeing average rate increases in the area of 65% to 75% coupled with dramatically increased deductibles, and a contraction of available limits and coverages. Some price increases exceed 100%.

It is for this reason that I would urge the Congress to address the market contraction that we are facing before it adjourns for this year. We are facing a deadline of the end of the year for reinsurance contract renewals that will begin to exclude terrorism coverage. If insurers cannot cede this risk to a reinsurer, they will be unwilling to take it on themselves and will refuse to offer the coverage.

That is why I am delighted that proposals to address the insurance problems we face are being advanced.

We all are familiar with the two major proposals – the 80/20 plan and the pooling arrangement. There are others as well.

Until there is a cure for the current environment of uncertainty created by the prospect of terrorism, the insurance coverage our clients need cannot be obtained from the private sector solely. In this somewhat unique – and hopefully short-term-environment, it is critical that the public and private sectors collaborate.

Then, once the environment has stabilized, and we achieve a state of greater normalcy in the environment, it should be practical for government involvement to decline and ultimately be withdrawn.

May I close by saying that my firm has been severely affected by the events of September 11. The first aircraft directly struck our offices in the World Trade Center and we lost 295 members of our corporate family. That was the real tragedy and is still with us in our offices and hallways.

We also incurred huge losses of property and equipment. So I speak here today from painful personal experience - and perhaps with a deeper understanding of what our clients face as they look to an uncertain future.

Mr. Chairman, let me restate that we are on the brink of an availability/affordability crisis insurance caused by the terrorist events. I commend you for holding this hearing, for your efforts to create a solution that restores and strengthens the private marketplace, and I urge you to work with your colleagues in Congress and the Administration and within our industry to find workable answers.